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ETHICAL ISSUES OF FINANCIAL REPORTING

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Abstract: *In Financial reporting it ensure that all users of financial systems must know the generally accepted accounting principles (GAAP). In business world accurate accounting plays a crucial role. Ethical financial reporting and accounting practices corresponds to basic human requirements. It creates credibility with public and employees. Ethics and accounting exist to protect the public from unscrupulous corporation. Most of the professions accountants hide or manipulate the information. Most accounting scandals have taken place on fraudulent financial reporting. It means that the management of company presents the misstatement of the financial statements. Normally, this is carried out with the intention of misleading investors and maintaining the company's share price in the present scenario business ethics has its own significance which helps to come from the global financial scandals. There is a requirement a direct ethnical guideline which spread a awareness to protecting from this corporate scandal that had taken place in different areas in different countries which are very harmful to the economy and our society. Due to the necessities of Information supplied by an accountant and manager should observe certain professional ethical standards, financial management adequacy, quality of audit, corporate ethics, embracing ethics etc. This paper explained the meaning of ethics, causes of ethical issues relating to accounting and financial reporting, and steps required to solve those issues.*

Keywords: *Financial reporting, accounting, ethical issues and business.*

I INTRODUCTION

In the modern industrial economy, the finance is blood of life. We cannot think of any formation of the companies without a finance. The success of any companies and organization is directly subject to the finance adequacy and its efficacious utilizations. But sometimes different accounting standards of different country create a difficult problem. For growth of world economy there is need to adopt one global standard so that participants around all over the world receive the same fair view of enterprises results regardless operating in different geographic area. The Ethics is defined in legion form, sometimes it contradictory, renditions . Nowadays in many area of accounting and financial reporting is a endured from problems of ethics which are a prominent issue. Ethics should have an essential part of the business and several other areas on ethical decision makings. The dictionary definitions of the word ethics is a system of principles governing morality and

acceptable conduct, and ethical code. According, to The Oxford Dictionary Ethics means as moral principles or as rules of conducts. It is combination of moral principals or manner of actions which are acceptable or unacceptable in field of human activity. Ethics is a voluntary phenomenon. It cannot be forced but it should be sway. Financial reporting is directly and indirectly related with accounting and economics. Financial reporting is played a crucial role in corporate governance. Financial reporting is a financial statement of any organizations or companies which disclose the financial status to the government, management and investors. The issue of ethics sustaining true financial reporting of company assets, liabilities and profits without forcing on them by management or corporate officers. The ethics have raised the value of ethical decision on business which is affected to the stockholders, creditors and other parties by the financial performance of companies. Some unethical activities is high concerns in the organizations like fraudulent financial reporting, personal trading, insider

trading, misappropriation of assets and disclosure. The significance of ethics in accounting have been verified by some old scandals. The auditors and accountants can acquire a lot of knowledge from the mistakes like. 2G Spectrum Scam, Commonwealth Games Scam, Satyam Scam, Indian Coal Allocation Scam, Enron scandal, etc. The scams have discredited public confidence and also spoiled the reputation of accountants in the accounting occupation. For all professional accountants, ethics has become a prominent issue, after a series of financial reporting scandals brought this issue into the forefront. There is various tricky ethical issues which bring forth the aboveboard task in financial reporting. The various scandals for companies is taken place due to breaches in ethics which is not good symbol for any companies. The results arise to loss of investors and confidence of consumers from the companies. It also badly affected to national economies growth and development.

II LITERATURE RREVIEW

(Kamat, 1987)Studied that” Ethical Governance Issues in Accounting and Reporting“ conclude that the procedures of accounting ,the accountant integrity, and financial disclosures on long-term basis are the fundamental quality to corporate transparency and stakeholder. sound reporting and accounting practices is the cornerstone of the integrity of an accountant.

(Kermis)Indicates on topic” Financial reporting regulations, ethics and accounting education” is that in ethical conflicts and dilemmas arise the auditing condition leaves the accounting profession, client, auditor, regulators and society in a circumstances plunged. In this study Researcher has found that the rules are insufficient in many situations.

(Azimifar, 7(10) Oct 2013) Researched on the topic “Impact of Professional Ethics on Financial Reporting Quality”. The study concluded that in the accounting profession Services provided to users by non-acceptance and confidence is useless. The importance of the moral standards of honesty and personal training needs, current and future accountants to lead the noble. In future research to accounting career fair to its historical role in economic growth and prosperity and the welfare of nations to continue.

(Onyebuchi, Vol. 2 No. 10; June 2011) The main findings there studies in business world to rejuvenate public confidence and trust in the financial reporting, especially public companies . The lack of transparency is found at the time of financial reporting. It’s financial matters followed by financial restatements disclosing billions of dollars of omitted liabilities and losses, contributed to its demise. That is an denotation that more litigation have to be taken by government to secure the loopholes that make successful it

potential for businesses and financial institutions to prosecute in illegal financial practices.

Objective of the study

To study the problem and challenges of ethics issue of financial reporting and accounting in business area.

Research methodology

The research paper study was carried out with the secondary data and it was taken from different research papers, journals and websites. The present study based on analytical and descriptive research.

III CHALLENGES OF FINANCIAL REPORTING AND ACCOUNTING

1.The continue challenging is Going concern concept: The economic conditions suffers from chronic problem it premise that in some cases going concern concept is not clear-cut in the business. There is required for the company to take deliberate decision of the judgments on related to going concern concept. Business will have an indefinite period of life and it will not liquidate in the near future. The business entity is made an assumption to be exists indefinitely to operate profitably for a foreseeable period unless there is evidence to the contrary.

2. Historical accounting: the present challenges to accounting and financial reporting is based on historical cost. This concept is strictly followed by companies. If any subsequent changes in market value of the assets it is not recorded by companies in their accounts. When the financial statements are prepared it ignored the present market price due to this it fails to reflect the true worth of the assets. In this situation, it is not relevant to the participants of the accounting information.

3. Challenges in measurement: Any changes on the basis of measurements it directly and indirectly effect to the financial performance and statement of the organizations and almost every users of the society. Measurement of financial reporting is more concern to conventions, not know how to deal with measurement problem. Measurement of financial reporting and accounting is include five principals like fair value, realizable value, value in use, deprival value or value of the business and historical cost. It is challenge to a company how it works effectively and how to measurement a results of it reliability in some situations and importance for some purposes.

4. Consistency challenges: When management of company once selected and adopted the accounting policies it must be followed continuous accounting period to other. If a company want to change the policies it must require to disclose that

there is problem that required being deal. Sometimes consistency also shows the external consistency. It is useful to compare the financial statement of other companies but it possible only when the company prepares the financial statement in same methods and procedures. While sometimes it's very challengeable to companies to maintain perfect external consistency.

5. Development of IFRS: .It will be a big gainsay to business concerns to adopt of IFRS and its influencing strongly among the users of financial statements. International accounting standards board(IASB) is developed IFRS(International financial reporting standards) it is set of accounting standards. The companies act 2013 shows various modification to IFRSs related to joint ventures, consolidation, fair values , financial reporting and accounting . India decide to converge it existing accounting standards with IFRS to provide a high quality solutions, understandable, transparency and comparable several information in financial statement and financial reporting. It facilitates to investors to make a economic decisions on the basis of present information. But it is possible only when management of company fully disclose the information with proper evidences.

IV SOME IMPORTANT ETHICAL ISSUES IN ACCOUNTING AND FINANCIAL REPORTING

1. Financial reporting is deceitful: From the last twenty years the financial scandals is a center of attention on financial reporting of fraudulent. The management of company is an intentionally misapplication of amount with intent to deceive the investors and showing fake the company's share price. The main area of fraudulent activities is by showing the fictitious revenue, recognition of premature revenue, adjustments of revenue by misstatement entries. In short period of time, when the company's stock price is high but in long period it badly effect on financial position of enterprise then it automatically understand by business concern the financial reporting is misrepresents their accounts.

2. Assets misappropriation: In accounting one of important ethical issues is the misappropriation of assets at an individual employee level. It directly and indirectly affects the company's staff morale and reputation. The company's management made a embezzlement of assets by misleading the accounts and preparing a wrong invoices and documents. Assets Misappropriation by use of company assets other than company interests for any other purpose.

3. Full Disclosure: financial reporting is subtopics of fraudulent, disclosure infringement are errors of ethical mistake resulting from neglect. Sometime information is not

disclosed in a prescribed way with GAAP and accounts are not prepared with honesty then it is to be considered financial reporting is a fraudulent activities. The entire beneficial person who are interested in the business sectors but when they know information of full disclosure is not success to investors. Then business concerns change their decisions for investments in the enterprises should be reckon as financial reporting is fraudulent.

V LIMITATIONS OF ACCOUNTING AND FINANCIAL REPORTING

1. Antithetical framework and policies of accounting: Accounting generally known as the language of the business. When entities operating a businesses worldwide then there is required to follow a single set of accounting standards. But Framework of Indian accounting standard (IAS) based on historical values and rules.while international financial reporting standards (IFRS) allow to use the accounting policies for preparing the financial statements. So that every organization follows a vernacular global language for business matters which helpful for understandable and comparable the companies account in different international boundaries. To overcome from this problem it is decided to merge its present accounting standards with IFRS. Thus information is communicated to users through financial statements and reports.

2. Judgment of Professional: The concept of professional judgment is developed by the ICAS (institute of chartered accountants of Scotland. It is one important aspects of preparing and auditing the financial statement. The demonstrating the professional judgment is to be made at reasonable period of time when the facts and circumstances are presents those results in information is more relevant and reliable. It is challenge of regulators to preparer's judgment after the event made. Before preparing the judgment report it must be consider some issues like accounting assessment, collecting and analysis the full knowledge, document assessments etc.

3. Verifiability objective evidence: A company's accounting data should be verifiable, free from personal bias and must be definite. All accounting transactions should be supported business document and evidences like invoices, sales bills etc. which is verifiable by auditor in later stage. Verifiability do not provide truthfulness of data but one must ensure that the data provide must be logically stream. Example Enron scandals which had taken place on one of the reputed American corporate of Huston based commodities, energy and service corporation. When Enron had been declared bankruptcy but there share price was \$.26 per share. It was

shot through with unverifiability. It will be done through by keeping huge debts off balance sheet.

4. Use of historical basis: All the transaction are recorded in the book of account at their monetary cost of acquisition. Measurement of assets based on historical cost. In the book of account several assets and liabilities are recorded at the price paid to acquire it. Its acquisition cost will be carried forward from year to year, irrespective of its present value. When we prepared the financial statement it will not reflect the true worth of assets.

5. Limited predictive value: Predictive value helpful for the investors to form the expectations about the future. Financial statement is prepared on previous performance of the companies and it reflects very less predictive value of the future which is more important point to the investors .

6. Fraud and error: To achieving a predetermined results the companies will made a deliberate manipulation of financial statements. Example WorldCom. Scandal. It will be done through with the help of the internal auditing department which underreported line cost by capitalizing rather than expensing and also a inflated revenue with fake accounting entries.

VI SOLUTION ETHICAL ISSUES RELATING TO FINANCIAL REPORTING AND ACCOUNTING

There are certain rules and regulations for financial reporting and accounting standards at the time of preparing a financial statements. It must be followed the GAAP , securities and exchange commission, investment accounting , disclosure rules and International Financial Reporting Systems guidelines and prepare the financial statement according the new guidelines.

1. Proper evidenced based approach: the supporting document must be proper arranged and make provision for it to be kept up to date.

2. Significance of consistency: uniformity is important issues to the users across the enterprises. because financial reports are disclose a true and fair view of financial statement of the enterprises.

3. Involvement in information technology system: optimal use of multiple data systems which useful at the time of financial closing and reporting activities like workflow of material, updates account chart and participants experiences etc.

4. Management and internal supports: senior and knowledgeable person of management must be presenting

business speech on various matters of accounts, meeting with external stakeholders which are very important for any companies. And sometimes also abode on internal issues of companies like how to deal with factors of risk and assessment of internal structure.

VII CONCLUSION

In present era nobody asked companies financial report, when everything appears bright. System of financial reporting reckon upon truthfulness of truth and trustworthy generally it is based on individual decision and actions for whole the companies and society. To impress the shareholder by providing pertinent information of business, this is more useful to make investment and economic decisions to the investors. Various financial scandals is taken place due failure of financial reporting and accounting standards is not properly implemented in accounting practices. So that there is need to make an awareness of code of professional ethics through accounting education and practices in the society. It tried to make a balance between economic, social and professional responsibilities. Motivating an employee and management to adopt an ethical behavior which will assist to discourage fraud and it also facilitates them to feel be a proud of our profession through contributions in accountancy.

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